

HSAs/HRAs for Dummies – Pt. 1

Now that you have read all you can about Consumer Driven Health Care Plans (CDHP), about the new HSAs (effective 1/1/2004), and HRAs (since 6/2002); you probably want to know how to implement them.

This is the first part of a two part article that will give you practical advice, step-by-step instructions on how to overcome the five common objections about HSAs/HRAs, how to do plan design, find trustees, custodians, documents, communication materials, and administration options.

It Takes One to Know One

Back in grade school- the bully of the class would usually pick on someone and try to hurt them. He would say mean things and many of us would stand by passively and think to ourselves: "Well, it takes one to know one." Very seldom would some brave soul (with very little sense of mortality) say out loud: "It takes one to know one."

You might be offended that I have titled this article: **HSA/HRA for Dummies**. You are probably thinking to yourself: "Well, it takes one to know one". And you would be right. Over the years since 1981 I have probably made every mistake you could make in benefits. I have acted like a dummy and have proved many times that I am a dummy.

So why do I bring this all up? Because I have spoken at many conferences lately and talked with thousands of people about HSAs/HRAs. And many of them in my opinion are acting like dummies. When they think about HSAs/HRAs automatically in their minds one of the following objections takes place:

"I can't do a HSA/HRA because of:

- 1 lack of clarification and regulations from the IRS/Treasury.
- 2 there is no tested, fully functional administrative software or Administrators out there.
- 3 there are no easy-to-follow steps and methods to evaluate Provider/Vendor HSAs/HRAs
- 4 there aren't any good High Deductible Health Plans (HDHP) available in my area
- 5 I can not find a good trustee/custodian."

As a dummy myself, it seems to me there are solutions to these objections. I will now try to address them one by one.

1- When will we get Regulations from the IRS?

The IRS has already announced that formal regulations will not be issued until 2005. Wouldn't it be the prudent, wise and cost-effective thing to just wait until 2005 when the final regulations are issued on HSAs/HRAs?

Learn from my mistakes and for being a dummy.

You might be saying it's just too risky. We are living in a world where things keep changing with "light speed". Whatever is shocking and provocative today could be considered obsolete tomorrow. High performers know that change happens, needs to be anticipated and monitored. They predict the change, adapt to it quick and enjoy it. This is one of the reasons why they are considered high performers.

If you do not change you can become extinct.

You do not need to be scared of the so-called lack of regulations. Here is why. I have been in the benefits practice for a while now and I have never seen the IRS/Treasury move as fast as they have on HSA benefits legislation. The Treasury has created a website just for HSAs: www.ustreas.gov/offices/public-affairs/hsa/faq1.html.

As a matter of fact, their own boss Secretary Snow of the Treasury is impressed with the speed: "I applaud the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) for issuing guidance that will make it easier for employers to adopt Health Savings Accounts (HSAs). Health Savings Accounts are designed to help individuals take more control over how their health care dollars are spent and save for future medical and retiree health expenses on a tax-free basis.

The Treasury Department will continue to issue the guidance that the private sector and industry needs to ensure that Health Savings Accounts will be available to all Americans". (Secretary Snow Praises Department of Labor For Issuing Health Savings Account Guidance, U.S. Department of Treasury, Thursday, April 8, 2004)

From all this is pretty obvious that HSA is considered a priority for IRS, Treasury and the Department of Labor.

With all this being said I really hope that you realize that waiting on HSAs/HRAs is dumb. You do not want to act like that, do you?

2- There is no fully tested Administration Software/Administrators to do HSAs/HRAs-

I would like to tell you something different. There are many software systems and Administrators out there.

I have done the research and found over 15 software vendors and over 30 Administrators who can do your HRA right now. HSA software is being programmed and developed

right now and many firms will be able to do them at the beginning of August, 2004.¹

The speed at which technology can change is increasing each day. I've got a list of software and vendors for HSAs/HRAs. But I need to warn you that it might be obsolete in the near future but I will still share it with you.²

You can take the time, expense and headache of doing your own research but you might be disappointed. State-of-the-art technology has become a constantly moving target, and just when you think you have the latest and greatest, it's devastating to realize you don't have it at all. Obsolescence is a fact of life, and it will usually occur right after you have implemented a new system.

How can a Benefits pro stay ahead of the technology curve? How can you be sure that the decision you are making today will still work tomorrow? You can't.

I have a story for you that explains this:

It seems like a million years ago, and in techno-time it probably was, but actually it was only 1981. I worked for, what was considered at the time, to be one of the most innovative and strongest companies in the world -- IBM. Not just IBM, but IBM corporate. Headquarters. New York. As in city.

In 1981, there were two mottos that were part of the IBM culture: "*Mainframes are our business.*" and "*No one has ever been fired for recommending IBM.*"

A large meeting was called and the rumor mill was in full force with the speculation that IBM had a revolutionary new system that would keep it the ruler of the hardware world. And we lucky employees would get to witness history by seeing it first.

Buck Rogers, the senior vice president of marketing at the time, stood in the middle of the IBM conference center surrounded by hundreds of spellbound Big Bluers. Next to him was a small table containing an object, hidden by a draped cloth. He finally removed the cloth and we beheld a small machine with two openings. It was not much bigger than the IBM Selectric typewriter. None of us knew what it was, but it didn't look like much.

Yet Buck Rogers, in all solemnity, declared, "This is our new business." It was the IBM 8088 dual floppy drive Personal Computer (PC).

I thought, "*Mainframes are our business.*" My brother, who had been one of IBM's top

¹ Steve Brown, April 2004, Employee Benefit Advisor, "HSA software ads admin support to Client Appeal."

² HRCG has available at no cost or obligation a comprehensive listing of software and consulting firms providing advanced technology systems for benefits enrollment, communication and administration. Please request this list by calling Mr. Thurston at (801) 765-4417, email hrconsultinggroup@msn.com, website www.hrconsultinggroup.com or writing: HRCG, Inc., 1202 E. Dover, Suite 201, Provo, UT 84604.

sales people said, "This will never replace the IBM Selectric typewriter."

This was in the summer of 1981. Within three years; PC hardware was the focus of IBM. The end of 1984, my brother's sales division had closed because no one was buying Selectric typewriters.

What we learn from this is that no matter what administration software or Administrator you select- they might be "obsolete" in the next few years. But waiting is a dummy decision.

Consumer-directed Health Plans (CDHPs) are the latest in a wave of changes that impact the healthcare industry. These new health plans are designed to increase the knowledge and choices that consumers have in purchasing services, including purchasing services from one of several types of spending accounts. The account that has generated the most interest is the health reimbursement account (HRA). These plans allow employer-funded account money that is not consumed to be rolled over year to year.

I think and hope that the facts and stories stated above will make you change your mind and you would think about acting now (implementing HSAs/ HRAs), before is not too late.

The answers to the remaining three questions (about easy-to-follow steps to evaluate Providers and Vendors HSAs/HRAs, where to find a good HDHP and where can you find a good/ trustee custodians) will be addressed in Series #2 of this article.



HSAs/HRAs for Dummies – Pt. 2

This is the second part of an article that tries to give you practical advice, step-by-step instructions on how to overcome the five common objections about HSAs/HRAs, how to do plan design, find trustees, custodians, documents, communication materials, and administration options.

In the first part, that was published last month, I stated that there are 5 common objections that people bring up about HSAs/HRAs. I argued that anyone who actually believed any of these statements was acting like a dummy. The objections that I am talking about are:

“I can’t do a HSA/HRA because of:

- 1- Lack of clarification and regulations from the IRS/Treasury.
- 2- There are no tested, fully functional administrative software or Administrators out there.
- 3- There are no easy-to-follow steps and methods to evaluate Provider/Vendor for HSAs/HRAs
- 4- There aren’t any good High Deductible Health Plans (HDHP) available in my area
- 5- I cannot find a good trustee/custodian.”

I feel that I answered the first two objections in part number one of this article. Now, I would like to address the last three.

3. How to compare Providers/Vendors for HSAs/HRAs-

I am positive that most of you have thought about how should HSAs/HRAs be implemented and if possible, without too much pain and without ruining the bottom line. However many of you have not found an answer yet and that breeds fear and delay.

To relieve you from this burden I propose you use the Internet or a consultant to help you find some Providers and Vendors. Then ask them these questions below and rate their answers. Then determine who has “won” with the best answer and best capability. As a dummy, this seems easy to me.

Questions to ask Potential HSA/HRA Providers and Vendors:

<u>HEALTH SAVINGS ACCOUNTS (HSAs)/(HRAs)/FSAs/RMAs/CAFETERIA/DEBIT- CREDIT CARD PLANS COMPARISON OF FEATURES CHART</u>	<u>Small Employer Plan (<500 ee’s)</u>	<u>Large Employer Plan</u>	<u>Third Party Administrator (TPA) Plan/ASP</u>	<u>WHO WON?</u>
PLAN DESIGN -High Deductible Health Plan of \$1000 single/\$2000 family available for all eligible employees?	Yes/No	Yes/No	Yes/No	
If you have more than 50 employees, is there a self funded medical plan option for the High Deductible Plans? Are the rates and benefits competitive?				
HSA and HRA can have funds invested and earn interest with daily valuation? Any range of investment options offered and tracked? Coordinates with Debit/Credit Cards and claims payment?				
Experienced Consultants, broker, and Medical/HSA and 125 Administrator available?				
Set goals with performance guarantees on what the HSA, HRA and Plans are to achieve in the first year?				
Reviewed, evaluated, and provided with a Return on Investment (ROI) for outsourcing to a TPA/ASP?				
ERISA or nonERISA HSA Plan?				
Decided to link HRA to the HSA, FSA, and other Plans?				

Sign an Agreement with TPA/ASP or for Software to do these Plans? Performance and rate guarantees in the Agreement?				
Explored and negotiated lower fees if you self fund, partially administer, do enrollment, and education of the plans?				
How to Communicate and Setup- HSAs/HRAs/FSAs/ Benefits Materials provided- CDs, PowerPoint presentations, cassette tapes, Manuals, sample communication materials, brochures, sample Proposals, pricing help, Word/PDF documents for HSAs/HRAs/FSAs/RMAs/POP/125/132/401k/ HSA trusts SPDs/Adoption/ Board Resolutions/Filing, etc.? Seminars and training available?				
Legal work by attorneys for custom PDF documents for HSAs/HRAs/FSAs/RMAs/POP/125/132/401k/VEBA trusts for Legal Plans/SPDs/Adoption/Board Resolutions/Filing, etc. including Letter of Compliance?				
ENROLLMENT - and Self Service Communications available? Capabilities via Windows, Laptop, Intranet/network, or Internet with multiple years online? Provider Selection, Pay Check/total income Tax Illustrations, Links to carriers for online applications, Retirement projections, Life Illustrations, Dependent Care/Earned Income Tax Credit calculations, eligibility, Provider Selection/Inquiry, Beneficiary Designation, Dependent information/elections, COBRA elections, etc.?				
SOFTWARE/ADMINISTRATION ISSUES - Retiree Medical Arrangements (RMAs) with monthly/annual maximums, investment/interest paid on balances, rollover from year to year, retiree billing, check-o-matic, Direct Deposit, etc?				
No limit to number of HSAs, HRAs, FSAs, or RMAs in the plan design- various levels, maximums, types of expenses can be set up and tracked Globally by Service Code, DRG, etc?				
Tiered pricing for claims, and links to PPOs, Discount plans, other plans, etc.?				
HRA claims payment can be limited to current account balance, monthly maximum or annual election maximum? Rollovers of unused funds from year to year is automatic or can be customized? Investment/interest can be paid on balances? HSAs, HRA claims can be paid first or second after the FSAs? HSAs/HRAs can be linked to medical claims repricing, PPO discounts, and wellness plans?				
FSA claims payment can be limited to current account balance, monthly maximum or annual election maximum? Investment/interest can be paid on FSA balances? FSA claims can be paid first or second after the HSAs/HRAs?				
HSA, HRA, FSA, and RMA claims and elections can be linked realtime to COBRA processing?				
HSA, HRA, FSA, and RMA claims can be paid via Debit Card, Credit Card, Direct Deposit, MICR encoded Laser Check, EFT, etc. to reimburse employees or pay Providers directly via MasterCard?				

Reports to employees for W2, 1099 taxable disbursements, MSA reporting requirements, statements provided? Reports to employer for contributions, activity, and business processed provided?				
Providers with their EFT information and Services Codes (DRG, CPT4, ICD9) can be tracked online?				
All data, databases, and history are stored and available at all times to the employer/TPA? ASP or provider does not control, own, or have rights to employer/TPA data?				
HSA/HRA can continue even after employee termination/COBRA with links to FSAs and to COBRA?				
Discrimination Tests for FSAs, Premiums, HRAs, HSAs, and all benefits with options to solve failed tests?				
Allows any coverage period, mid year changes, any payroll deduction period, premium payments, and investment/interest paid on balances in HSAs/HRAs?				
No limit as to the number of Employees, Locations, Divisions, Groups, Organizations that can be tracked and administered on a Global basis using the system?				
No limit as to the number of FSAs, HSAs, HRAs, Debit Cards, Premiums and Benefits that can be tracked and administered on a Global basis using the Software? IRS Form 5500 information is available?				
Premium Billing & Accounting, Group List Bills, Links to insurance vendors, Reconciliation, Consolidated billing, premium check printing and issuance?				
Import/Export of data can be set up by employer/TPA without needing programming support?				

4. There are good High Deductible Health Plans (HDHP) available

To implement a HSA you need to identify insurance companies that offer a HDHP in your state. The Internet is a good resource to do that but another solution might be to contact an independent broker. You may look at major benefits publications or the Internet for case studies and plan designs on HSAs. Find out who was providing the HDHP for those HSAs. Attend a Web conference, local meeting, or national conference and ask who has a HDHP in your area. Commonly mentioned as HDHP qualified carriers are: Assurant Health (formerly Fortis Health), Golden Rule, BCBS (in almost all states), Aetna, Pacificare, United Healthcare, CareGain and others. A good place to look is at the website of the National Association of Health Underwriters (NAHU) www.nahu.org .

The number of HDHP existing in the area is surprising.

In a Survey that eHealthInsurance.com did as of April 2004, 57% of all plans purchased by individuals for single coverage and 40% for family coverage elected a HDHP that qualifies for a HSA:³

³ April 21, 2004- Sunnyvale, CA Press Release, eHealthInsurance.com, "eHealthInsurance.com Introduces Health Savings Account Available Nationally".

“Consumers Choose Higher Deductibles and Lower Co-payments

Data from this sample shows that there is a clear consumer purchasing preference for higher deductible plans. As shown in the chart below, 57 percent of all plans purchased by individuals have a deductible of \$1,000 or higher. Families purchased plans with deductibles of \$2,000 or higher nearly 40 percent of the time. These are the deductible levels a health insurance plan must have to be eligible for pairing with a Health Savings Account. Additionally, three-quarters of policies have office visit co-payments of \$20 or less.

Deductible Levels for Policies Purchased by eHealthInsurance Individual and Family Coverage Customers			Co-Pay Percent of Policies Purchased			
	Percentage of Policies Purchased			Individuals	Families	Average
Deductible	Individuals	Families				
\$500 or less	39.1%	24.9%	\$0	38.9%	45.3%	40.8%
\$501 to \$999	4.1%	4.5%	\$10	11.6%	8.0%	10.5%
\$1,000 to \$1,500	28.0%	31.4%	\$15	6.0%	7.5%	6.4%
\$1,501 to \$1,999	0.7%	0.0%	\$20	18.4%	14.7%	17.3%
\$2,000 to \$3,000	18.4%	22.0%	\$25	8.7%	6.6%	8.2%
Over \$3,000	9.7%	17.2%	\$30	8.8%	9.2%	8.9%
Total	100%	100%	\$35	3.3%	3.5%	3.3%
			\$40	2.3%	3.2%	2.6%
			\$45	2.0%	2.0%	2.0%
			Total	100%	100%	100%

The HSA is very attractive in combination with an HDHP because of the cost savings.⁴

It is very important to know that 71 percent of people who bought HSAs in 2004 paid \$100 or less per member per month (PMPM) for HSA-eligible health plans.

Even if you might think the opposite it is not easier for individuals to find a HDHP than for a company to find a fully insured Group HDHP. An employer with over 50 employees might look into a self-funded plan.

We think the entire insurance industry (including fully insured carriers and brokers) will want part of this market and they will need to develop HDHPs quick so that they can

⁴ April 20, 2004, eHealthInsurance.com, “Health Savings Account Fact Sheet (attached)

meet the demand

5. Where can I find a good Trustee/ Custodian?

If you are going to implement a HSA- the monies contributed must be placed in a Trust and there must a Custodian of the account. Many employers are complaining that they cannot find a good Trustee/Custodian.

I have good news for you. Any current insurance carrier, bank or financial institution, qualified Medical Savings Account (MSA) Administrators, or major stock firm are probably already a Trustee/Custodian (by default) for HSA Accounts.

The IRS has even published a further List of NonBank Trustees/Custodians on its website at www.irs.gov. As of December 31, 2002- (the new List as of 12/31/2003 is in draft form and has not been released yet) the IRS had approved 238 such firms. More are being approved as new NonBanks seek formal approval. The IRS has told me that there has been tremendous new interest in becoming a HSA Trustee/Custodian.

Still don't believe me? Then ask Calvin Thompson of the Employee Plans, Tax Exempt and Government Entities Division- IRS. (202) 283-9596. Just don't tell him who gave you his phone number.

Summary-

The purpose of this article was to clarify some issues regarding HSA/HRA, with the goal of getting you to act now. The key points are the IRS/Treasury are already working on clarification and regulations and you can find administrative software or Administrators out there. We also suggested some easy-to-follow and inexpensive steps to implement HSAs/HRAs. If you look hard enough you can find good High Deductible Health Plans (HDHP) available in your area.

Learning all the information provided in this article will probably make you rethink about waiting and you will start implementing in 2004 a CDHP with HDHP linked to HSAs/HRAs.

Bottom line: "don't be a dummy!" Hopefully this article has answered some questions you have had. If this will lead you to action, then this article has made its point.

There is a new bestseller from Kirk Cheyfitz that seems to be support that position. Its entitled: "Thinking Inside the Box: The 12 Timeless Rules for Managing a Successful Business". Free Press, 2003.

Cheyfitz's very first of his 12 Timeless Rules is: "Don't do anything stupid!" Who could argue with this?

Don't do anything stupid and don't be a dummy. Make this your business motto!

About the Authors-



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